

EXHIBIT NO. _____

BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of Ohio)	
Power Company for Administration of the)	
Significantly Excessive Earnings Test for 2012)	Case No. 13-2251-EL-UNC
Under Section 4928.143(F), Revised Code,)	
and Rule 4901:1-35-10, Ohio Administrative)	
Code.)	

DIRECT TESTIMONY OF
THOMAS E. MITCHELL
ON BEHALF OF
OHIO POWER COMPANY

Filed: November 22, 2013

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THOMAS E. MITCHELL

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BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO
DIRECT TESTIMONY OF
THOMAS E. MITCHELL
ON BEHALF OF
OHIO POWER COMPANY

1 **PERSONAL BACKGROUND**

2 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

3 A. My name is Thomas E. Mitchell and my business address is 1 Riverside Plaza
4 Columbus, Ohio 43215.

5 **Q. ON WHOSE BEHALF ARE YOU TESTIFYING IN THIS PROCEEDING?**

6 A. I am testifying on behalf of Ohio Power Company (“OPCo” or “AEP Ohio” or “the
7 Company”).

8 **Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

9 A. I am employed by American Electric Power Service Corporation (AEPSC), a
10 subsidiary of American Electric Power Company, Inc. (AEP), as Managing Director
11 of Regulatory Accounting Services. AEP is the parent company of OPCo.

12 **Q. WHAT ARE YOUR RESPONSIBILITIES AS MANAGING DIRECTOR OF**
13 **REGULATORY ACCOUNTING SERVICES?**

14 A. My primary responsibilities include providing the AEP System operating
15 subsidiaries, including OPCo, with accounting support for regulatory filings. This
16 support includes the preparation of cost-of-service adjustments, accounting
17 schedules, and accounting testimony. I direct a group of professionals who provide
18 accounting expertise, compile necessary historical accounting schedules, present
19 expert accounting testimony and respond to data requests in connection with rate

1 filings with eleven state regulatory commissions and the Federal Energy Regulatory
2 Commission (FERC).

3 **Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND**
4 **PROFESSIONAL EXPERIENCE.**

5 A. I received a Bachelor of Science Degree in Accounting from Virginia Polytechnic
6 Institute and State University (Virginia Tech) in 1977. I also hold a Master of
7 Business Administration Degree from Virginia Tech and a Bachelor of Arts Degree
8 in Government from the University of Notre Dame. I have been a Certified Public
9 Accountant since 1978. I was first employed by Appalachian Power Company
10 (APCo) in 1979, an affiliated operating company of OPCo and, except for
11 employment with Norfolk Southern Corporation as an Assistant Accounting
12 Manager (1984-1985), have held various positions in the AEPSC Accounting
13 Department continuously since that date. In 1998, I was promoted to Director,
14 Accounting Policy & Research and in 2008, I was promoted to my present position
15 as Managing Director of Regulatory Accounting Services. I have served as
16 Chairman of the Accounting Standards Committee of the Edison Electric Institute
17 (EEI) and am currently Chairman of the Joint Accounting Liaison Committee of the
18 EEI which meets annually with the FERC Accounting Staff to discuss accounting
19 issues of mutual interest to EEI and the FERC.

20 **Q. HAVE YOU PREVIOUSLY TESTIFIED OR SUBMITTED TESTIMONY IN**
21 **ANY REGULATORY PROCEEDINGS?**

22 A. Yes, I testified on behalf of AEP Ohio before the Public Utilities Commission of
23 Ohio (PUCO or the Commission) to establish a Standard Service Offer (SSO) in
24 Case No. 11-346-EL-SSO and Case No. 11-348-EL-SSO. In addition, I testified

1 before the PUCO on behalf of the Company regarding the 2010 Significantly
2 Excessive Earnings Test (SEET) proceeding, Case No. 11-4571-EL-UNC and Case
3 No. 11-4572-EL-UNC and 2009 SEET proceedings, Case No. 10-1261-EL-UNC
4 (2009 and/or 2010 SEET Reviews). I also filed accounting testimony in the
5 Company's distribution base rate case in Case Nos. 11-351-EL-AIR and 11-352-
6 EL-AIR as well as filed rebuttal testimony in the Ohio Remand Case No. 08-917-
7 EL-SSO and Case No. 08-918-EL-SSO. I have filed accounting testimony and
8 testified on behalf of APCo and Wheeling Power Company before the Public
9 Service Commission of West Virginia, and on behalf of APCo before both the
10 Virginia State Corporation Commission and the FERC. Finally, I have also filed
11 accounting testimony on behalf of Indiana Michigan Power Company before the
12 Indiana Utility Regulatory Commission and on behalf of Kentucky Power Company
13 before the Kentucky Public Service Commission.

14 **PURPOSE OF TESTIMONY**

15 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS**
16 **PROCEEDING?**

17 A. My testimony describes the method I used for calculating the Company's earned
18 return on common equity (ROE) including adjustments to exclude Off-System Sales
19 (OSS) net margins and special accounting items. OPCo and Columbus Southern
20 Power Company were merged effective December 31, 2011 and thus this filing
21 presents financial information related to OPCo. No adjustments were made to
22 remove extraordinary items, minority interest or non-recurring items for 2012
23 because there were no such items recorded. However, I did remove certain special
24 items as detailed later in my testimony. I then calculated the earned ROE for OPCo

1 for the year ended December 31, 2012 and provided my calculations to AEP Ohio
2 witness Spitznogle. Unlike in the previous 2009 – 2011 SEET Reviews, I have not
3 calculated those provisions of AEP Ohio’s ESP that directly produce earnings which
4 serve as a cap to ESP amounts that might be subject to being returned to customers
5 in the event that OPCo had excessive earnings in 2012 because OPCo’s ROE for
6 2012 falls within the “safe harbor” limit as discussed by AEP Ohio witness
7 Spitznogle.

8 **EXHIBITS**

9 **Q. ARE YOU SPONSORING ANY EXHIBITS IN THIS PROCEEDING?**

10 A. Yes, I am sponsoring Exhibit TEM-1: Earned ROE

11 **RETURN ON EQUITY (ROE)**

12 **Q. PLEASE DESCRIBE THE METHOD YOU USED TO CALCULATE THE**
13 **ROES FOR OPCO AS SHOWN IN EXHIBIT TEM-1.**

14 A. The calculation of the ROEs was performed in two steps. I first calculated the
15 respective per books (unadjusted) 2012 ROE (refer to Exhibit TEM-1) for OPCo
16 using the amounts for 2012 net earnings available to common shareholders
17 compared to the average of the beginning and ending equity for the year ended
18 December 31, 2012. The use of average equity was determined by the PUCO to be
19 appropriate in the previous 2009 and 2010 SEETs Review and is consistent with the
20 calculation of the average equity for the comparable risk group supported by
21 Company witness Makhija.

22 **Q. WHAT WAS THE SECOND STEP FOR YOUR DETERMINATION OF THE**
23 **APPROPRIATE ROEs?**

24 A. In accordance with the PUCO order in the 2009 and 2010 SEET Reviews, I made

adjustments (after federal and state income tax) to remove certain special accounting items from the net earnings available to common shareholders (or numerator) and common shareholder equity (or denominator), as well as adjustments related to the removal of OSS net margins. For 2012, there were no minority interest, non-recurring or extraordinary items

Q. WHAT ARE THE RESULTS OF THE TWO STEPS OF THE CALCULATION OF THE ROEs?

A. The results are summarized as follows:

Step	OPCo
Step 1: Per Books ROE	7.65%
Step 2: Adjusted SEET ROE	9.76%

Q. DID YOU PROVIDE THE RESULTS OF YOUR CALCULATIONS OF THE 2012 ROE FOR OPCO TO AEP OHIO WITNESS SPITZNOGLE?

A. Yes.

Q. PLEASE DESCRIBE HOW YOU MADE ADJUSTMENTS TO THE NUMERATOR.

A. I took the net total amount of all the adjustments as shown on page 1 of Exhibit TEM-1 for the twelve months ended December 31, 2012 and removed their impact on earnings for purposes of the 2012 SEET review. The amounts derived for each of these adjustments are shown on page 2 of Exhibit TEM-1 and are discussed later in my testimony.

Q. HOW DID YOU MAKE ADJUSTMENTS TO THE DENOMINATOR?

A. For all adjustments except OSS net margins, OPCo used the same after tax amount calculated for the numerator to adjust the denominator.

1 **Q. DID YOU ADJUST THE DENOMINATOR FOR OSS NET MARGINS**
2 **CONSISTENT WITH THE METHOD APPROVED BY THE PUCO IN THE**
3 **2010 SEET REVIEW?**

4 A. Yes, I compared the Megawatt hours (MWh) sold for OSS to the MWh generated
5 by those plants as shown on page 5 of Exhibit TEM-1. This MWh ratio was then
6 multiplied by the amount of equity related to generation and transmission plant net
7 book value (NBV) as shown on page 4 of Exhibit TEM-1. The inclusion of an
8 allocated portion of transmission plant is based on the Commission's recent order in
9 OPCo's 2010 SEET proceeding.

10 **Q. WHAT WAS THE RESULT OF YOUR CALCULATION OF OPCO's OSS**
11 **NET MARGIN ADJUSTMENT TO EQUITY (DENOMINATOR) USING**
12 **THE MWH METHOD DISCUSSED ABOVE?**

13 A. My adjustments to OPCo's equity are a reduction of \$205.917 million and \$271.420
14 million, respectively as shown on page 4 of Exhibit TEM-1.

15 **Q. PLEASE DESCRIBE THE ADJUSTMENTS (AFTER FEDERAL AND**
16 **STATE INCOME TAX) MADE TO REMOVE SPECIAL ACCOUNTING**
17 **ITEMS FROM THE NET EARNINGS AVAILABLE TO COMMON**
18 **SHAREHOLDERS (OR NUMERATOR) AND COMMON SHAREHOLDER**
19 **EQUITY (OR DENOMINATOR).**

20 A. The special accounting items relate to impairment of certain OPCo's generating
21 units and certain restructuring charges. The 2012 after tax amounts for each specific
22 item have been added back to net earnings available for common shareholders and
23 common shareholder equity which is used in the calculation of average equity and
24 are shown on page 2 of Exhibit TEM-1.

1 **Q.** **DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

2 **A.** Yes.

Columbus Southern Power Company and Ohio Power Company
Annual SEET Filing
Earned ROE
For the 12 Months Ended December 31, 2012

Exhibit TEM - 1
Page 1 of 5

Step 1 Per Books ROE

Description	OPCo (000's)	
Earnings Attributable to Common Stock	\$ 343,534	(A)
12 Month Average Total Common Shareholder's Equity	\$ 4,487,944	(B)
Return on Equity (%)	7.65%	

Step 2 Per Books ROE Calculation - Excluding Off-System Sales Net Margins and Other Adjustments

Description	OPCo (000's)	
Earnings Attributable to Common Stock	\$ 343,534	
Plus: OSS Net Margins and Other Adjustments After-Tax	\$ 52,862	(C)
Earnings Attributable to Common Stock <i>(excluding OSS and Other Adjustments)</i>	\$ 396,396	
Adjusted 12 Month Average Total Common Shareholder's Equity	\$ 4,061,627	(C)
Return on Equity (%)	9.76%	

(A) - From December 31, 2012 10K.

(B) Per Books Common Shareholder's Equity (SHE)

OPCo

Period Ended	Total Common SHE (000's)	
12/31/2011	4,450,178	(A)
12/31/2012	4,525,709	(A)
Per Books Average Common SHE	4,487,944	

(C) See Exhibit TEM-1 page 2

Columbus Southern Power Company and Ohio Power Company
Annual SEET Filing
Adjustment Support
For the Year-Ended December 31, 2012

Exhibit TEM - 1
Page 2 of 5

Line Number:	Adjustments:	OPCo-2012 (000's)
	Description	
1	OSS (See page 3)	\$ (134,092) (A)
2	Ohio Plant Impairments	\$ 178,353 (B)
3	Restructuring	\$ 8,601 (B)
4		
5	SEET Adjustments	
6	Sub-total	<u>\$ 52,862</u>
7	Exclude OSS	<u>\$ 134,092</u>
8	Exclude SEET Adjustments	<u>\$ -</u>
9	Total w/o OSS and SEET Adjustments	<u>\$ 186,954</u>

10 **(A)** See Exhibit TEM-1 page 3.

11 **(B)** Special items added back in 2012.

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17 **Adjusted Common SHE**

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<u>Period Ended</u>	OPCo Total Common SHE (000's)
12/31/2012	4,525,709
Current year adjustments	
excluding OSS and SEET adjustments	<u>186,954 (Line 9)</u>
Adjusted 12/31/12 Common SHE	4,712,663
Unadjusted 12/31/11 Common SHE	<u>4,450,178</u>
Adjusted Avg. Common SHE w/o OSS	4,581,421
OSS Adjustment	<u>519,793 (D)</u>
Adjusted Average Common SHE	4,061,627

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(D) See Exhibit TEM-1 Page 4.

Ohio Power Company
Annual SEET Filing
Off-System Sales Net Margins
For the 12 Months Ended December 31, 2012
Off-System Sales Net Margins

Exhibit TEM - 1
Page 3 of 5

Month	OPCo - Before Tax (000's)	OPCo - After Tax (000's)	OPCo - After Tax Cummulative (000's)
January	\$ 20,822	\$ 13,336	\$ 13,336
February	18,359	11,759	25,095
March	19,619	12,566	37,661
April	22,832	14,624	52,285
May	22,202	14,220	66,505
June	24,502	15,694	82,199
July	34,216	21,915	104,114
August	13,747	8,805	112,919
September	9,358	5,994	118,913
October	6,831	4,375	123,288
November	8,275	5,300	128,588
December	8,593	5,504	134,092
Total Off-System Sales Net Margins	\$ 209,356	\$ 134,092	

Tax Rate 35.95%

Ohio Power Company
Annual SEET Filing
OSS Equity Adjustment

For the 12 Months Ended December 31, 2012

Exhibit TEM - 1
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OSS Equity Adjustment

	Generation		Transmission	Total
	OPCo 2012		OPCo 2012	OPCo 2012
	(000's)		(000's)	(000's)
1. Calculate PP&E Ratio				
Total Average Net Plant	\$ 5,599,729		\$ 1,174,695	
Total Net Plant	\$ 9,200,278		\$ 9,200,278	
Total Avg. / Total Plant	60.86%	(A), (1) - See below	12.77%	(A), (2) - See below
2. Calculate OSS in Equity				
Per Books Average Equity	\$ 4,487,944	(B)	\$ 4,487,944	
Amount of equity "supporting" Plant	\$ 2,731,363	(C) = (A) X (B)	\$ 573,110	
3. MWH Allocation				
Average OSS as % of Net Plant (See Page 5)	15.73%	(D)	15.73%	
Amount of equity "supporting" Plant	\$ 2,731,363	(C)	\$ 573,110	
	\$ 429,643	(C) X (D)	\$ 90,150	\$ 519,793

Total Avg. Generation / Total Plant (Source Company FERC Form 1 pgs. 204 - 207, 219)

	OPCo			
		Accumulated		
2012	Gross	Depreciation (J)	Net	
Intangible Plant	138,964	108,425	30,539	
Production Plant	9,635,707	4,248,264	5,387,443	(E)
Transmission Plant	2,007,735	817,153	1,190,582	(F)
Distribution Plant	3,718,113	1,391,679	2,326,434	
General Plant	243,598	91,784	151,814	
Totals	15,744,117	6,657,305	9,086,812	(G)

OPCo

		Accumulated		
2011	Gross	Depreciation (J)	Net	
Intangible Plant	130,771	107,120	23,651	
Production Plant	9,554,099	3,742,084	5,812,015	(H)
Transmission Plant	1,942,328	783,521	1,158,807	
Distribution Plant	3,540,884	1,363,682	2,177,202	
General Plant	230,824	88,756	142,068	
Totals	15,398,906	6,085,163	9,313,743	(I)

Average Gen 5,599,729 **(E+H)/2**
Average Total 9,200,278 **(G+I)/2**
Avg. Gen./Total 60.86% **(1) - See above**

Average Trans. 1,174,695 **(F+H)/2**
Average Total 9,200,278 **(G+I)/2**
Avg. Trans./Total 12.77% **(2) - See above**

(J) - Intangible plant accumulated depreciation is recorded in FERC account 111 and is from Company internal property records.

Annual SEET Filing
 Company Proposed OSS Equity Adjustment
 For the 12 Months Ended December 31, 2012

Exhibit TEM - 1
 Page 5 of 5

Source: Monthly AEP Interchange Power Statements (IPS) Page 10s - MWs

2012	OPCo		
	Total Gen	Total LSE	Gen to OSS
January	5,553,615	4,842,212	711,403
February	4,681,019	4,161,630	519,389
March	4,088,503	3,937,475	151,028
April	3,881,684	3,558,826	322,858
May	3,959,997	3,621,588	338,409
June	4,022,134	3,547,625	474,509
July	5,063,374	4,223,019	840,355
August	5,079,101	3,995,408	1,083,694
September	3,891,406	3,080,595	810,811
October	4,416,695	3,401,506	1,015,189
November	4,017,867	3,065,168	952,699
December	4,802,190	3,611,038	1,191,152
Total	53,457,586	45,046,089	8,411,497
Average OSS as % of Net Plant			15.73%

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in

Case No(s). 13-2251-EL-UNC

Summary: Testimony Direct Testimony of Thomas E. Mitchell on behalf of Ohio Power Company electronically filed by Mr. Daniel R. Conway on behalf of Ohio Power Company and Nourse, Steven T. Mr.